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# Conference Overview and Welcoming Address

*Sandra Pianalto*

On behalf of Mark Sniderman, senior vice president and our director of research, and all of our staff who have been involved in putting this conference together, I am delighted to welcome you to our second conference on education. I am pleased to see this great turnout and to see many familiar faces from our education conference last year.

We decided last year that a lot can be gained by bringing educators and civic leaders together with the economists. And this year we have done the same.

I think it is important that the lessons we learn, such as the ones we will hear over the next two days, be heard by all of the interested parties: school superintendents, politicians, teachers, union representatives, and parents. It is also important for the economists involved in this research to hear from the practitioners. I am also pleased to have an opportunity to launch two days of inquiry and discussion on a topic of such vital national and regional importance: education.

I spend a lot of time talking with civic and business leaders about our region's economy, and I find that those conversations always end up on education and its importance to our region's economic growth and development. If you attended last year's conference on education and economic development, you may recall that we discussed some of the inputs and outputs that apply to education.

We began a dialogue on how to think about educational inputs like teachers, books, and computers, and then consider their combinations in terms of things like school-board policies, curriculum, and instructional methods. The big challenge, of course, is to find ways to achieve success in important outputs such as graduation rates and achievement test scores. While that is a very basic framework, it turns out that it generates a lot of

useful insights about how education is actually produced and how people who care so much about education might work together to improve the product.

This year, our conference will focus on the role of innovation in education.

I would like to provide a framework to get us started as we address this issue. First, I will provide a brief overview of the conference. Second, I want to point out that the longer-term benefits innovation can bring about are often obscured by short-term turmoil. Third, I will explain why it is important to understand the incentives that new education policies or programs may generate.

## RECENT INNOVATIONS IN THE EDUCATION INDUSTRY

Let me begin, then, with a conference overview. We decided to focus the conference on innovation this year because we want to call attention to some of the interesting new ideas that are being implemented regionally, nationally, and internationally. Some of these ideas dovetail with what we learned last year. For example, we learned from last year's conference that many people in our region recognize the need for change, and they want to know more about the changes taking place elsewhere. We presented some research on how local school boards can be made more accountable for student outcomes. Choice and competition can go a long way in this regard, and we will likely hear more about these topics when my friend and colleague, Michael Moskow, the president of the Federal Reserve Bank of Chicago, speaks to us at lunch today. In fact, today's entire program focuses squarely on the issues of competition and choice.

Last year, we also presented some research suggesting that student achievement could improve

when teacher compensation is tied to student performance. This seems to be a very timely idea. Just a few weeks ago, on November 1, the voters in Denver, Colorado, voted to implement an innovative approach for taxing and funding an incentive-based compensation system for teachers. We are fortunate to welcome Brad Jupp, who was intimately involved in that process from the union side of the bargaining table. We will hear from Brad tomorrow at lunch.<sup>1</sup>

Last year, we also had a lively discussion about the returns to investment in early childhood education. It turns out that it is not very difficult to make a case for expanding access to early childhood programs. What is difficult is figuring out how to design and fund the programs. At what age should children begin? What kind of services should be offered? Where will the money come from? Art Rolnick, the research director at the Federal Reserve Bank of Minneapolis, has a specific proposal that he would like to “sell” to Minnesota, but I am sure that he thinks that we should adopt his proposal right here in Cleveland as well. Art will fill us in on the details of his proposal tomorrow.

Also in tomorrow’s sessions, we will hear about new research on what drives students to attend school, to learn, and to achieve.

While there is a lot of continuity with last year’s conference, this year’s conference stands on its own by emphasizing innovation. We know that when innovations are adopted, they require change, and that change can come fast and hard.

Here in Ohio, we are in the early stages of learning about the pros and cons of school choice with vouchers and charter schools. These alternatives arose from a general unhappiness with the status quo. We are continually reminded of this through the media. Hardly a day goes by that we don’t see some kind of report informing us of the sad state of affairs of education in the United States. The bottom line, typically, is that our test scores have been falling behind the rest of the world. Or we hear about our local schools performing worse than schools in other districts and that it is becoming increasingly difficult to pass school levies. However, despite the willingness of states and communities to experiment, lately we have been hearing that some of the innovations may not be working quite as well as we had hoped.

## INNOVATION CAN BRING SHORT-TERM UPHEAVAL

This brings me to my second point: Innovation can bring upheaval. This upheaval makes it difficult, at least in the short run, to fully appreciate the benefits we receive from that innovation. Implementing a new technology or a new idea always disrupts the status quo. It takes time to work out the kinks. Old technologies and processes must give way to new ones, but normally this does not happen without a fight.

For innovation to actually make a difference, we should expect to see new technologies, new organizational practices, and sometimes even new occupations. We may not capture the full returns from the innovation for many years. For example, as a society, we have only recently started reaping the benefits that microprocessor, telecommunications, and biosciences companies have delivered by working with innovations that were developed a number of years ago. Perhaps we are seeing the same process with innovation in education.

For as long most of us can remember, choosing a new school for our children to attend meant moving to a new school district or paying for a private school. Local property taxes were the main source of school funds. But these models for organizing and funding education are no longer being taken for granted, and new ideas are coming forward. I think people are looking for, and are ready for, change.

Yesterday I happened to be meeting with some business people from Athens, Ohio, and the subject inevitably turned to education. I commented that so many of our current educational practices can still be traced back to the system we developed in response to our needs as an industrializing economy, 100 years ago. One of my guests politely said, “Sandy, our school calendar is still based on the planting, growing, and harvesting cycle of the agricultural economy of 200 years ago!”

We have seen tremendous change in almost every industry and institution in our economy. I think that we might finally be at the front end of a revolution in primary and secondary education.

The challenge we face today is to try to accelerate the reorganization process that accompanies change by

learning from the past and paying closer attention to the role that incentives can play.

## **THE INCENTIVES CREATED BY INNOVATION**

This brings me to my last point, which concerns incentives. Any policy, law, or contract creates incentives. For example, I think we all understand the motivation behind the movement toward standards and accountability in our schools, but how many of us anticipated the lengths to which some administrators, teachers, and students might engage in unethical activities in an effort to evade these standards?

Today, there are more choices and more types of schools. In some areas, vouchers can be used so that kids can change schools without moving to a new location. The success of charter schools and voucher programs in competing with public schools depends on a number of incentive mechanisms operating effectively. Schools must be willing to offer something of value to the marketplace, and at a price their customers can pay. Parents must be able to differentiate among the suppliers in the market and must find a way to get their child to the school of their choice.

The emergence of charter schools leads us to ask many questions, such as: Who should be allowed to

get a charter? Should we regulate these schools? How will we measure their success or failure?

Governments must establish taxes and subsidies that lead to socially desirable outcomes. The location of schools, and the cost of attending them, can affect housing choices and tax rates in various communities which, in turn, will have repercussions on other aspects of community life. We should work aggressively to resist different educational outcomes based on race, class, and geography. Incentives matter, and they often have unintended consequences.

You will hear about several studies today and tomorrow that illustrate these points very clearly. As we begin our two-day conference, I am excited about what we will be able to learn together. As I said earlier, it is important to bring together all of the interested parties. It is important that economists hear from the practitioners and to understand the problems they face. It is important that politicians hear from economists to learn the likely incentive effects of proposed policies.

Our goal with conferences such as this one is to open up that dialogue to achieve an effective delivery of education to all of our children—and, by doing so, to build innovation and prosperity for new generations.

## **ENDNOTE**

<sup>1</sup> Brad Jupp's conference presentation, while not included in these proceedings, is available online at [www.clevelandfed.org/Research/EdConf2005/Nov/papers.cfm](http://www.clevelandfed.org/Research/EdConf2005/Nov/papers.cfm).